MODERN DISTRIBUTION MANAGEMENT

The Newsletter for the Wholesale Distribution Channel

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Sonepar Offers $3.5B for Hagemeyer

Electrical distributors consider next moves in the U.S.

By Lindsay Young and Thomas P. Gale

Paris-based Sonepar's unsolicited $3.5 billion (2.5 billion euro) bid Oct. 8 for Hagemeyer NV shook the electrical distribution world this week. Hagemeyer rejected the offer, saying it "significantly undervalues the company." Nevertheless, the Netherlands-based company says it will meet with Sonepar to "clarify its intentions."

Based on comments by Hagemeyer CEO Rudi de Becker in August, Hagemeyer is not interested in selling. Still, Sonepar will likely try to persuade the company's board and raise its bid.

Joining Sonepar and Hagemeyer would create a global powerhouse with revenues of roughly 15 billion euro (US$21 billion), based on the two companies' reported sales in 2006. The merger would also mean greater and complementary market coverage for both companies in North America.

Hagemeyer in North America

In North America, Hagemeyer did close to $2 billion in sales in 2006, 85 percent of which is to industrial customers. (Fifteen percent are to contractor customers in the U.S.) That's up from three years ago, when about three-fourths of sales in North America were to manufacturing customers. According to Hagemeyer's 2006 annual report, a "significant portion" of U.S. business is in integrated supply contracts.

More than 90 percent of Hagemeyer's total revenue is generated by its core Professional Products and Services business, which is focused on the distribution of electrical parts and supplies, safety and other MRO products in 25 countries across Europe, North America and Asia-Pacific. Its overall sales were around $8 billion in 2006.

Hagemeyer built its North America presence significantly starting in 1999 when it bought Cameron & Barkley Co. (CamBar), at the time an $850 million distributor that brought its core competency of integrated supply into Hagemeyer's fold. CamBar joined Tristate Electrical & Electronics Supply Company, and Vallen Safety Supply Company, which were

continued on next page

European Distributor Presence in North American Markets

The combination of Sonepar and Hagemeyer would challenge Rexel's position in both Europe and North America.

	Global Revenue	N. America Revenue	N. America % of total rev.	Europe % of total rev
Hagemeyer NV	$8B	$2B	23%	63%
Sonepar	$12.5B	$2.4B	25%	73%
Rexel	$12.5B	$6B	50%	44%

For comparison, here are the numbers of European HVAC, plumbing and building materials distributor Wolseley:

Wolseley	$26.0B	$18B	63%	37%

Source: Company annual reports and MDM estimates

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acquired in 1999 and had revenues respectively of $450 million and $200 million. In 2002, Hagemeyer North America reached $1.9 billion in sales.

In 2003, Hagemeyer NV divested its Information Technology Products and Services, dropping total global revenue from 8.3 billion euro to 6.3 billion euro. Sales fell to 5.4 billion euro in 2004, but have grown steadily since.

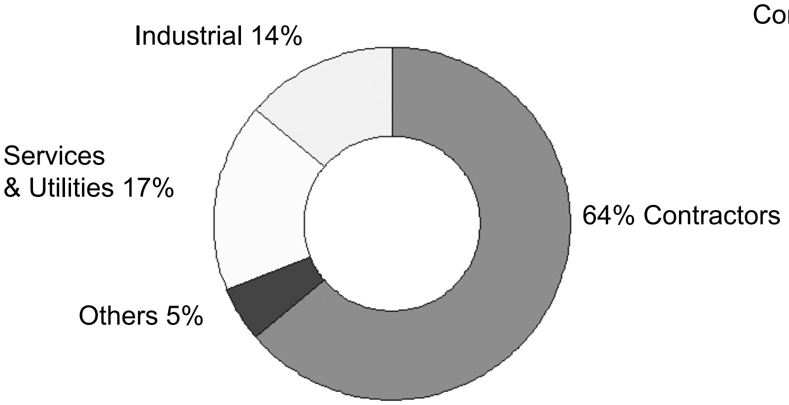
Sonepar's U.S. Growth Spurt

The Sonepar USA division is reported to have had $2.4 billion in sales in 2006. That number should grow this year. Sonepar picked up its acquisition pace significantly in 2007. Between 2005 and 2007, Sonepar completed eight acquisitions. The most recent were Friedman Electric in Pennsylvania and Crawford Electric in Texas.

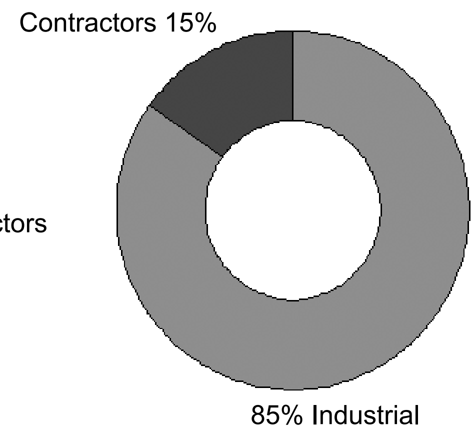
Sonepar estimates it will reach $3 billion in 2007 sales in the U.S. In the past two years, Sonepar says, it has doubled in size.

Sonepar USA's parent, Sonepar Group, is a privately-owned electrical distributor with 9.45 billion euro (about US$12.5 billion) in sales in 2006. The company operates in 29 countries on four continents. It is a family-owned group that has grown through acquisition since 1982 when it bought its Dutch peer Otra NV and doubled in size.

Sonepar USA Sales by Customer Profile



Hagemeyer NV North American Sales by Customer Profile



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After Sonepar announced it wanted to buy Hagemeyer, Hagemeyer's shares have advanced the most since January 2005, according to Bloomberg. Another potential suitor, Rexel, on the other hand, has seen its shares on Euronext drop more than 5 percent, probably because it made a major acquisition last year and would need to raise more debt to make the Hagemeyer acquisition.

Sonepar is privately owned.

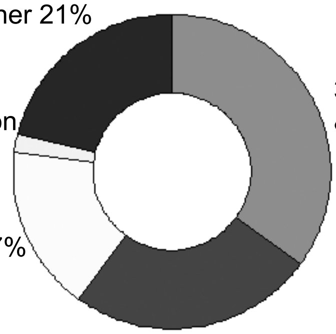
A Second Bidder?

Not to be left out: Rexel, the $12 billion global electrical distributor that has been the target of speculation it would be the first one to bid for Hagemeyer.

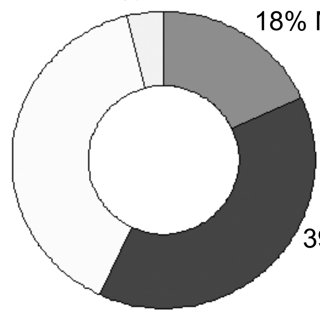
The company released a statement Oct. 9 saying the France-based global distributor is reviewing its strategic options in regards to Hagemeyer and will keep the market informed of its decisions.

Rexel has stated in company reports that it will keep its focus on smaller acquisitions, but would not rule out big acquisitions if they were a good fit. Most recently, Rexel made a big move in the U.S., buying GE Supply in mid-2006 for $725 million, putting it among the top three electrical distributors stateside.

Sonepar USA by Product Line



Sonepar USA by Region



Another Move in the Electrical Markets: CED to Buy USESI

CED (Consolidated Electrical Distributors) will acquire US Electrical Services, LLC, Exton, PA, a recently formed distribution company lead by former Sonepar USA chief Richard Worthy. Privately-owned CED is among the top 10 electrical distributors in the U.S.

USESI has more than $300 million in sales through 11 electrical distributors mostly in the Mid-Atlantic and Northeast U.S. US Electrical Services will be incorporated under a new name, US Electrical Services, Inc., which will continue to operate as a separate entity. USESI's founder, Worthy, will continue to lead the company as its CEO, and the US Electrical senior management team will also remain with the company.

Worthy is a seasoned veteran of the electrical distribution industry. Before founding USESI, he was CEO of Sonepar USA, where he led a series of acquisitions for the electrical distribution giant. (Sonepar just announced it wants to buy Hagemeyer NV.) USESI was backed by private investors, including Michael Dell of Dell Computers.

Worthy released a statement on why he decided to sell:

"As we talked (with CED) it became clear that we share a common, optimistic vision of the electrical distribution industry's evolution, and most significantly, that the regional hub and spoke model that USESI employs was a distinct operating model and skill set that CED did in fact highly value. The last six months of negotiations also proved there is very good chemistry and the personality 'fit' is right. Our many meetings with CED cemented our initial feelings that CED was the right home for USESI."

As part of the transaction, Standard Electric, or SESCO, will come under the USESI umbrella of regional companies.

Worthy said USESI will soon be "back on the acquisition and expansion trail with the full support of CED."

■ *MDM Interview*

SKF's View of Global Distribution

Supplier's Service Division president on maintaining healthy channels

MDM Editor Lindsay Young spoke with SKF Service Division President Phil Knights at the European Power Transmission Distributors Association annual meeting last month in Monaco about how the global manufacturer views the distribution marketplace. Knights oversees all 70 of the SKF Service Division units worldwide. The division is responsible for sales to the industrial aftermarket via a network of 7,000 distributor locations and comprises about one-third of the SKF Group's sales.

MDM: What impact is consolidation having on independent distribution channels?

Phil Knights: The biggest get bigger and sometimes the smaller ones disappear. That is happening in Europe at quite a fast speed now. It's following similar patterns in the U.S. with one main exception. That is, in the U.S. you typically have multibrand distributors – they are carrying not all the brands, but many. The market has evolved into that. I think that's a serious problem for distributors in the U.S.

MDM: Some say customers drove that change.

PK: Well, the customer gets the blame for it. I'm not so sure about that. … The distributor is supposed to sell the value in a brand. And this is where it's gone a little bit wrong; distributors are carrying too many different brands. In Europe and the rest of the world to a large extent we have what we call monoculture distributors.

Monoculture distributors are those that say that basically I want to sell, for example, Coca-Cola to my customers and the drinks that Coca-Cola sells. However if I don't have everything I need in the range of Coca-Cola, I might sell Perrier. And that's OK because the monoculture is aimed at Coke, but range-filling is aimed at another good brand. Typically those distributors do extremely well and actually make better profits than the multibrand distributors. Their profits are generally twice as good as multibrand distributors. This is a very important point. We've done a lot of analysis on this.

MDM: Do you anticipate European distributors will shift away from monoculture as many in the U.S. have?

PK: The main issue is whether their principal objective is growth. If they just want size, they tend to go towards multibrand. If they want to build a quality relationship with customers in the local area then they will stick with monoculture. That doesn't mean they're small. It means the national distributor is choosing to go down the path of building strong local relationships instead of trying to be all things to all people. It's a different model.

MDM: What does your distribution look like in Europe?

PK: We have many distributors in Europe – close to 680. Of those, we can say probably a third of those branches are coming from big distributors. But all sizes are all important to us.

MDM: Could you comment on the recent acquisition of Wyko by ERIKS?

PK: I think that was a very good acquisition. From a customer's point of view ERIKS is a very competent engineering company and almost a manufacturer in many ways. Wyko, as well as being a big distributor, has an engineering services division. Both distributors have a deep culture in on-site engineering and in contract engineering for the customers. These two were a good match with almost no overlap because they are in different geographical markets.

MDM: How do you view the growing trend of private label?

PK: I believe one of the challenges our distributors face is how they maintain a good image in front of their customer but at the same time represent the manufacturer brand. I am strongly opposed to own-brands (private label) for the distributor.

MDM: Why do you feel that private label may be a bad move for distributors?

PK: Because the technology is ours. We made the R&D investments to develop new products, new processes, new software etc, it is our competencies that are translated into the products we deliver to the market through our distributors. Why should all that be branded with somebody else's brand?

It is the role of the manufacturer to produce and source products, and it's the role of the distributor to take them to the market. The danger is that they will not be adding value if they try to play the same role the manufacturer is playing. There is a division of roles here. … We know a number of cases where distributors got themselves into trouble by offering underperforming products. It's a dangerous game to play for a distributor, as you can be sued for a lot of money. Normally you have recourse on your manufacturer, but if you do not have a reputable source you won't have any recourse.

MDM: Tell me about SKF's focus on energy efficiency and the environment.

PK: We are focused on our customers' needs in these areas in two ways. The first: We have a new range of products coming out. They are energy-efficient bearings that will reduce friction more than our current line of bearings, and will lead to a substantial reduction in energy consumption. Those bearings will be launched at the end of this year. We also have a number of solutions that contribute to reduce energy consumption and carbon dioxide emissions within the Group's other technologies, sealing solutions, mechatronics and lubrication systems.

MDM: Is the market ready for that?

PK: The market is ready for whatever package of improvements you can design to help save energy. In any given machine what we're looking at is not just to replace the bearings but also seals, lubricants, and other components – the whole machine can be improved by adding certain technologies. We're also going to be developing a service package to help the customer improve the operation of the whole piece of equipment. There is the possibility of decreasing energy consumption anywhere from 2 percent to 30 percent, depending on the condition of the equipment.

MDM: What is SKF's main focus right now in regard to its distributors?

PK: We talk a lot with our customers - we meet with them and do regular surveys. What the customers are telling us is that to be a distributor long-term, you must offer more than products. You must offer services. And those services must deliver documented value-add. That's why we've designed software programs to help distributors to do that.

MDM: Have your distributors been receptive to the tools you offer them?

PK: Absolutely. The best distributors are really running with these programs. And we go further than that because we have a Certified Maintenance Partner program (CMP). We use this around the world and currently have 160 CMPs. They are also authorized SKF distributors. … This helps a distributor solve problems with a customer's machinery. The distributor-engineers get training from SKF and then they can start to charge for services.

The CMP is really the first big step for distributors to go out on the customer site to help them improve the productivity and total cost of ownership.

MDM: It sounds like you try to work closely with your distributors. Relationships between distributors and manufacturers can sometimes be an issue. What is SKF doing in this area?

PK: There are a lot of surveys done on this. Some say distributors' relationships with manufacturers are not as good as they used to be. Some say the opposite. But yes, you are right, we work very closely with our distributors. We actually see them more as a partner.

What we decided to do is develop a program that distributors can follow called "More with SKF." It's very simple. It is a 12-module program designed to support distributors in every aspect of their business. The distributor can go into any one of those modules and take training programs. One of the outputs is that we work together with them to create a business plan. They use the training modules to meet the objectives they set in their development plans. Around the world we have 1,200 distributors that have developed joint business plans with us. The most successful of our distributors are doing it.

MDM: You recognize that for you to be successful, your distributors need to be successful.

PK: Sure. We're in year six of that program, and we've seen unprecedented local development in our distributors. It's accelerating. We like to believe it's at least partly connected to all the work we've been doing there. We have a lot of people working on this program.

Forget Arbitration – Go For Jury Waiver

Consider alternatives to arbitration when agreements sour

Pre-dispute resolution provisions should be carefully considered, along with much of the other seemingly "legal boiler-plate" provisions that show-up at the end of distribution and other contracts, before signing off on a contract that can affect a business relationship for years.

By Frederic Mendelsohn

Most distributors are familiar with written contracts (like distribution agreements) that have provisions near the end of the document that appear quite legal in nature. Generally, one set of these legal provisions relates to where and how contract disputes are resolved. Most distributors are familiar with arbitration, where the parties give up the right to have their claim heard in court, as well as their right to a jury trial. "Mandatory arbitration provisions," however, are just the tip of the iceberg when it comes to pre-dispute resolution contract clauses.

Because these provisions are agreed to before a dispute arises between contracting parties, they are referred to as "pre-dispute resolution provisions." As mentioned, one classic pre-dispute resolution provision is mandatory arbitration, where parties agree to select one or more "neutrals" (typically retired judges or practicing attorneys) to serve as arbitrators and preside over a hearing where the parties, typically through their own attorneys, present their case.

Because arbitration is a creature of contract, its contours are left in large part up to the parties. They can agree, for example, whether one or more arbitrators will hear the dispute, how they are selected, whether a written decision must be issued, the types of pre-hearing discovery available to the parties (depositions, requests for documents, etc.), and whether the arbitrator can award punitive damages and/or attorney's fees. Parties can also agree on the scope of disputes to be heard in arbitration. For example, clauses that provide that "any claim, dispute or controversy between us… and any claim arising from or relating to this agreement or the relationships which result from this agreement…" can be resolved by arbitration.

Pre-Dispute Resolution Issues

Pre-dispute resolution provisions can be extremely important after-the-fact (i.e., once a dispute arises), and often can seriously hinder how a party resolves a contract-based dispute. Most businesses, however, give these types of provisions little consideration before hand, only to realize, after the fact, that the ability to address post-dispute issues can be substantially limited.

For example, in a recent case where a dealer wanted to pursue certain statutory anti-trust claims against a supplier, the dealer was prohibited from asserting that claim in court before a jury because the underlying contract contained a broad arbitration provision. Not only did the arbitration provision supercede the party's right to resolve any contract dispute in court (including a right to a jury), it covered all statutory claims that party might have. While the dealer in that case did not even consider, at the time of contract formation, the impact of the pre-dispute clause in its supplier agreement, it certainly recognized the pitfalls after the fact. The lesson learned is that pre-dispute resolution provisions should be carefully considered, along with much of the other seemingly "legal boiler-plate" provisions that show-up at the end of distribution and other contracts, before signing off on a contract that can affect a business relationship for years to come and where disputes, however unlikely they seem at the time, are possible or even likely "down the road."

Arbitration is not always the speedy and inexpensive forum that many believe. In fact, in the dealer case mentioned above, the dealer first asserted its claims in federal court, and found itself on the receiving end of a motion to order the case to be heard in arbitration, which was not only granted, but cost the dealer a good chunk of change to litigate that procedural issue.

While arbitration is sanctioned by the courts, and even federal and state statutes such as the Federal Arbitration Act (which makes "valid, irrevocable and enforceable" written provisions in contracts affecting commerce calling for arbitration of disputes), many courts refuse to enforce such provisions, depending on the facts and circumstances. That is, there is no guarantee that a pre-dispute mandatory arbitration agreement will be enforced. Because arbitration is a creature of contract, contract defenses, including those relating to contract formation and procedural and substantive unconscionability, are often successfully asserted by parties seemingly bound to an arbitration provision.

Courts also look to see if there is balance in the arbitration provision. Those that give one party the right to go to court, but restrict the other; those that do not provide for selection of a neutral arbitrator; those that unduly restrict a party's right to recover certain types of damages, or non-monetary relief; or those that restrict the rights of a party to engage in discovery – can be invalidated. Similarly, provisions that improperly allocate the costs of arbitration (including as to attorney's fees) or are overly biased in administration and process can be set aside by the courts.

Thus, to the extent that a party wants to preserve a pre-dispute mandatory arbitration provision (for example, to deprive a channel partner of the ability to present to a jury statutory claims with the potential for treble damages and attorney's fees, like the anti-trust claim referred to in our example) needs to be equally sensitive to the provision in the contract formation stage to preserve its enforceability.

Alternatives to arbitration

Other pre-dispute resolution provisions, like jury waivers, forum-selection clauses, personal service waivers, choice of law provisions and/or consent to jurisdiction clauses, are equally important, both tactically and strategically, to provide for effective dispute resolution at the contract formation stage. Many, in fact, are constitutional in nature, such as the right to a jury trial (which flows from the Seventh Amendment to the United States Constitution and each state's constitution), and the personal right to jurisdiction (which flows from the Fourteenth Amendments mandate of due process).

Jury waivers are particularly interesting. Because they are constitutional in nature, and exist in the context of criminal proceedings (where the longstanding inalienable right to life, liberty and the pursuit of happiness [as contemplated by the Declaration of Independence] can be compromised if not taken away), the courts have developed a different legal standard to assess the propriety of a jury waiver – whether or not they are "knowing and voluntary."

Jury waivers eliminate much of the procedural and substantive challenges to arbitration provisions, and give parties more protection against runaway jury verdicts in commercial, employment and other disputes. For example, full discovery exists under applicable rules of procedure; no issues exist as to the neutrality in a bench trial (i.e., one presided over by a judge, without a jury); the judge decides how costs and fees are apportioned; and, the parties have full appellate rights (which do not exist in arbitration).

While not nearly as common in practice or in the literature, planning for disputes to be resolved by way of a bench trial is a viable alternative to pre-dispute mandatory arbitration, and should not be overlooked by distributors and contracting parties in pre-dispute resolution contract formation planning. When coupled with a favorable choice of forum, choice of law, and consent to jurisdiction provisions, a bench trial can be a meaningful alternative to arbitration if and when the relationship between contracting parties turns south and disputes (particularly difficult and/or hotly contested disputes) develop.

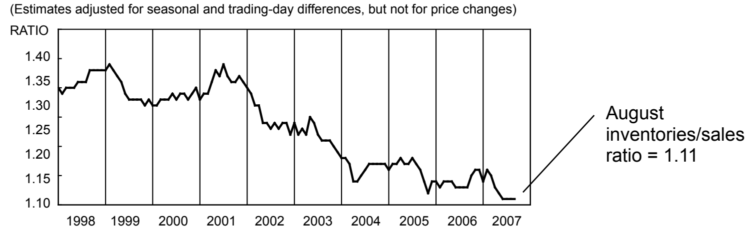
Frederic Mendelsohn is a partner with the law firm of Burke, Warren, MacKay & Serritella, P.C., in Chicago, www.burkelaw.com. His practice involves complex commercial litigation and dispute resolution; labor and employment law; market channel matters involving dealers, distributors and sales representatives; and the general representation of middle market business. For 12 years he was general manager of the Electronic Distribution Show, and is intimately familiar with the electronic distribution industry. He may be reached at 312-840-7004 or fmendelsohn@burkelaw.com.

Monthly Wholesale Trade: Sales and Inventories for August 2007

August 2007 sales of merchant wholesalers, except manufacturers' sales branches and offices, were $360.9 billion, up 0.4 percent from the revised July level and were up 6.8 percent from the August 2006 level. The July preliminary estimate was revised upward $0.5 billion or 0.1 percent. August sales of durable goods were up 0.9 percent from last month and were up 4.4 percent from a year ago. August sales of nondurable goods were down 0.1 percent from last month, but were up 9.1 percent from last year.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 1996-2006

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories. Total inventories of merchant wholesalers, except manufacturers' sales branches and offices, were $399.0 billion at the end of August, up 0.1 percent from the revised July level and were up 4.4 percent from a year ago. End-of-month inventories of durable goods were up 0.4 percent from last month and were up 1.9 percent from last August. Inventories of motor vehicle and motor vehicle parts and supplies were up 2.4 percent from last month, while inventories of metals and minerals, except petroleum, were down 1.9 percent. End-of-month inventories of nondurable goods decreased 0.4 percent from July, but were up 8.9 percent compared to last August.

Inventories/Sales Ratio. The August inventories/sales ratio for merchant wholesalers, except manufacturers' sales branches and offices, based on seasonally adjusted data, was 1.11. The August 2006 ratio was 1.13.

Monthly wholesale trade: Sales and inventories August 2007

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 7/07-8/07	% Change in Sales 8/06-8/07	% Change Inventory 7/07-8/07	% Change Inventory 8/06-8/07
42	U.S. Total	360,919	399,016	1.11	0.4	6.8	0.1	4.4
423	Durable	171,496	244,087	1.45	0.9	4.4	0.4	1.9
4231	Automotive	27,033	37,818	1.40	0.5	0.2	2.4	-0.6
4232	Furniture & Home Furnishings	6,010	8,062	1.34	-2.7	5.7	0.3	8.6
4233	Lumber & Other Construction Materials	10,612	14,350	1.35	-1.4	-12.9	1.0	-7.0
4234	Prof. & Commercial Equip. & Supplies	30,749	32,352	1.05	1.1	10.8	0.7	8.0
42343	Computer Equipment & Software	16,086	12,220	0.76	0.1	11.5	2.0	11.4
4235	Metals & Minerals	13,791	23,394	1.70	0.0	3.4	-1.9	-0.3
4236	Electrical Goods	25,442	32,090	1.26	0.4	0.6	0.1	2.2
4237	Hardware, Plumbing, & Heating Equipment	7,960	15,245	1.92	1.6	2.4	-0.1	2.8
4238	Machinery, Equipment & Supplies	29,445	63,107	2.14	1.4	7.9	0.0	3.5
4239	Miscellaneous Durable	20,454	22,271	1.09	3.6	13.6	0.2	-1.0
424	Nondurable Goods	189,423	150,327	0.79	-0.1	9.1	-0.4	8.9
4241	Paper & Paper Products	8,210	6,818	0.83	0.7	4.5	-1.6	8.4
4242	Drugs	34,139	30,709	0.90	2.2	6.8	-1.5	-6.3
4243	Apparel, Piece Goods & Notions	11,173	15,852	1.42	2.3	7.4	0.7	7.7
4244	Groceries &Related Products	42,672	27,407	0.64	0.3	9.5	-0.7	12.9
4245	Farm-product Raw Materials	16,852	17,999	1.07	9.5	49.2	5.3	52.5
4246	Chemicals &Allied Products	8,481	9,180	1.08	1.2	5.9	-1.3	4.9
4247	Petroleum &Petroleum Products	39,984	13,114	0.33	-6.1	2.2	-3.3	2.6
4248	Beer, Wine & Distilled Beverages	8,642	10,359	1.20	0.3	7.1	-2.8	11.4
4249	Miscellaneous Nondurable Goods	19,270	18,889	0.98	-1.4	7.6	0.0	8.7

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

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Industrial & Construction Markets Update

PERSPECTIVE

As our lead article notes, the big attraction for Sonepar is Hagemeyer's North American industrial business. Sonepar's U.S. customer base is 64 percent electrical contractors and only 14 percent industrial. Hagemeyer's North American operations are 85 industrial and 15 percent contractor. Sonepar would get a well-developed integrated supply business with more diversified products.

You have to ask how the model developed for a century or so by Cameron & Barkley and acquired by Hagemeyer at the turn of this century would change… again – for customers, vendors and employees.

Will we see more diversification across channels? Is it possible to buy growth in big chunks and combine different pieces to produce a profitable entity? Recent history seems to favor smaller, incremental steps to expand into tangential product areas.

When Hagemeyer combined Cam-Bar, Tristate Electrical and Vallen Safety Supply, it was a tough integration. Hagemeyer was plagued in 2003 by accounting glitches that hurt its reputation with vendors and customers. That was compounded by financial rumors and difficult operating issues in the United Kingdom. The net result in the U.S. was distraction from the continuing integration task at hand since three top distribution companies in their respective product areas were brought together in 1999 and 2000 into an arguably strong growth platform for integrated supply.

You can argue that HD Supply may yet reach its potential with a diverse product and customer segment portfolio, but few distributors seem to stay flexible and customer-centric once they get folded into a bigger package. And once you lose that customer connection, you've lost the core local value of what defines success for many distributors.

CED (Consolidated Electrical Distributors) will acquire **US Electrical Services**, LLC, Exton, PA, a recently formed distribution holding company lead by former Sonepar USA chief Richard Worthy. US Electrical Services will continue to operate as a separate entity. Worthy will lead the company as its CEO.

Hagemeyer NV said in a press release Tuesday that **Sonepar's** unsolicited bid of US$3.5 billion (2.5 billion euro) "significantly undervalues the company." Hagemeyer says it will meet with Sonepar to "clarify its intentions." Paris-based Sonepar announced in an unsolicited offer that it would pay 4.25 euro in cash per share for the Netherlands-based distributor. The global electrical distributor notified Hagemeyer of its intention on Oct. 8.

Barnes Group Inc., Bristol, CT, has named Patrick J. Dempsey as president of **Barnes Distribution**. Dempsey was the president of Barnes Aerospace. He replaces Idelle K. Wolf, who is retiring. Dempsey takes the helm immediately.

Though not yet official, **3M Co**. has plans to acquire **Standard Abrasives**, Simi Valley, CA, a competitor in the metal-abrasives industry.

Gases and welding supplies distributor **Valley National Gases**, LLC, Washington, PA, has acquired **Allegheny Welding and Industrial Supply** Inc., an industrial gas and welding supply distributor with locations in Johnstown, Greensburg, and McKeesport, PA. Valley National Gases was acquired in February 2007 by **Caxton-Iseman Capital** LLC, a New York-based private equity firm.

Caxton-Iseman has acquired **Conney Safety Products**, LLC, Madison, WI, a full-service national distributor of personal protective equipment, safety equipment, first aid supplies, and various other safety products, from **K+K America Corporation**. The transaction is valued at $48 million.

Economic activity in the manufacturing sector expanded in September for the eighth consecutive month, according to the latest Manufacturing ISM Report on Business. Still, the trend is toward slower growth in manufacturing as the rate of growth in both the New Orders Index and Production Index slowed. The Inventories Index fell to 41.6 percent, indicating significant inventory liquidation. The rate of growth in the Employment Index increased slightly in September.

Real gross domestic product – the output of goods and services produced by labor and property in the U.S. – increased at an annual rate of 3.8 percent in the second quarter of 2007, according to final estimates released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 0.6 percent.

Canadian manufacturing shipments rebounded from a sharp 2 percent

continued on next page

MARKETS UPDATE SUPPLEMENT P. 2

drop in June, gaining 2.3 percent to $50 billion in July, the highest level since March. Excluding the motor vehicle and parts industries, shipments advanced 0.4 percent in July. Durable goods manufacturers reported a 3.7 percent increase. New orders advanced 3.2 percent. Unfilled factory orders increased 2.9 percent compared to June.

Canadian wholesalers sold an estimated $44.1 billion worth of goods in July, a 2 percent gain over June. The automotive products sector led the way with a 4.9 percent gain. Other sectors: personal and household goods (+4.0 percent), machinery and electronic equipment (+2.8 percent), and building materials (+1.3 percent). Sales excluding the automotive sector rose 1.3 percent in July.

Airgas, Inc., Radnor, PA, announced that beginning Dec. 1, 2007, or as contracts permit, its operating units will increase prices on bulk and packaged gases. Prices will increase, on average, as follows: 20-30% for helium; 10-15% for argon; 8-10% for all other bulk atmospheric gases, and packaged industrial, specialty, and medical gases. Airgas also will raise rental rates for cylinders and bulk tanks and other delivery and service charges up to 15%.

3M CEO George Buckley outlined to investors this week how the diversified manufacturer wants to continue to rebuild and expand its core, especially adhesives, abrasives, tapes and films. Its continuing strategy, he said, is to advance its core businesses, grow through complementary acquisitions, build new business in adjacent markets and drive strong international expansion.

WinWholesale Inc., Dayton, OH, has opened two branches in Nebraska: **Husker Winlectric** in Omaha, NE, and **Lincoln Winwater Works Company** in Lincoln, NE, to serve utilities, municipalities and contractors in eastern Nebraska. WinWholesale has opened 14 locations in 2007.

WinWholesale subsidiary **Noland Company**, Newport News, VA, plumbing, heating, ventilation and air conditioning distributor, has opened a branch in Cleveland, TN, to serve HVAC contractors in a six-county area in the southeastern part of the state. Noland has 108 locations in the southeastern U.S. WinWholesale has 459 locations nationwide.

Graybar, St. Louis, MO, distributor of electrical and communications products, has opened a 10,000-square-foot distribution facility in Collinsville, IL. With the addition of this facility, the company now has 12 locations throughout Missouri and Illinois, including regional distribution centers in Joliet, IL, and Springfield, MO.

Pro-Build Holdings subsidiary **Lumbermens** Inc., Lacey, WA, has agreed to buy **Alpine Lumber Supply**'s two North Idaho facilities, according to local newspaper, the Bonner County Daily Bee. Alpine is a supplier of building materials with two lumber yards focused on eastern Washington and North Idaho builders.

Atlas Copco, Stockholm, Sweden, will establish a factory for assembly of pneumatic tools in Hungary. The move involves transferring production from Great Britain. "This is part of our strategy to increase sourcing from Eastern Europe and Asia," says Fredrik Möller, business unit president, Atlas Copco Industrial Technique. "By establishing production in Hungary, we are lowering our cost base and safeguarding our future growth prospects."

American Air Liquide Holdings, Inc., an **Air Liquide** affiliate, has agreed to buy **Scott Specialty Gases**, Inc., Plumsteadville, PA, an international producer and supplier of mixed and pure high specialty gases to the analytical, medical and electronics sectors, and of gas handling equipment and specialty gas delivery systems. Scott has annual sales of $88 million.

Building Materials Holding Corporation, San Francisco, CA, a supplier of construction services and building materials to professional residential builders and contractors, announced its subsidiary, BMC West Corporation, has sold three retail-oriented business units in Western Colorado for $11.4 million. Sales for these three operations in 2006 were $40 million or 3 percent of BMC West.

Wilden Pump & Engineering has acquired **Griswold Pump Company**, Thomasville, GA. With the acquisition, Wilden, a division of **Dover Corp**., will have annualized sales of more than $140 million. Wilden, whose international business exceeds 60 percent of total sales, says international growth will be a focus in Griswold's strategic plan going forward.

U.S. MARKET ANALYSIS: Mechanics Hand Tools

MARKETS UPDATE SUPPLEMENT P. 3

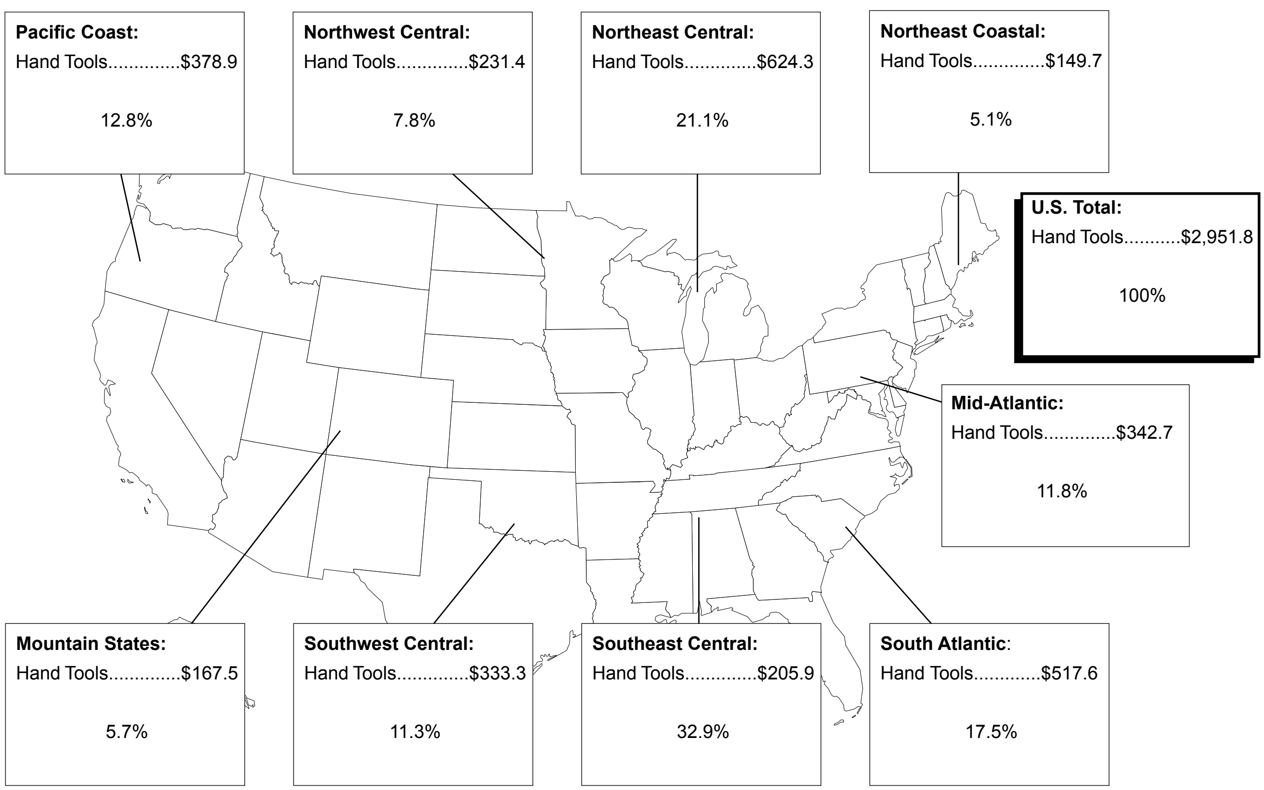
The industrial product group listed here - Mechanics Hand tools - represented a market in 2007 of $2.95 billion, according to estimates by Industrial Market Information, Minneapolis.

These charts show the top ten industries, by SIC code, consuming these products; and the 2007 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Hand Tools (2007 estimates)

SIC CODE	Companies	Total
1711 Plumbing Heating & Air Cond.	150,704	182,750,535
1731 Electrical Work	104,074	106,222,282
7538 General Automotive	129,656	92,616,360
3599 Industrial Machinery	28,636	72,429,403
3714 Motor Vehicle Parts & Access.	5,244	70,251,426
1542 Nonresidential Construction	47,371	66,121,477
1521 Contractors - Single Family Housing	305,347	65,317,893
1611 Highway & Street Construction	23,900	51,229,030
3711 Motor Vehicles & Pass. Car Bodies	2,113	45,567,820
1623 Water, Sewer & Utilities	12,573	43,168,394

End-user consumption of Mechanics Hand Tools by region, millions of $ (2007 est.)



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. Industrial Market Information has more than 200 industrial product profiles available at the county level. www.imidata.com

MARKETS UPDATE SUPPLEMENT P. 4

MAPI Quarterly Business Outlook Index Remains Unchanged at 65

Despite some softening in individual components of a composite quarterly measurement, U.S. manufacturing should maintain its growth trend in the near term, according to the Manufacturers Alliance/MAPI Survey on the Business Outlook, a leading indicator for the industrial sector.

The September 2007 composite index of 65 is unchanged from that reported in the June 2007 survey. A business index above 50 indicates that overall manufacturing activity is expected to increase over the next three to six months. It should be noted, however, that the index measures the direction of change rather than the absolute strength of activity in manufacturing.

While six of the 10 factors measured by the quarterly survey were lower than the previous report, all remain at relatively high levels in absolute terms. There were increases in two indexes and two remained flat.

The research and development (R&D) index asked executives for their initial insights regarding R&D spending in 2008 compared to 2007. This index rose to 75 percent, and improving upon the 70 percent of a year ago, helps confirm the underlying strength in manufacturing.

The capacity utilization index, based on the percentage of firms operating above 85 percent of capacity, rose to 41.7 percent in September 2007 from 37.6 percent in June 2007, and remains above its long-term average of 32.5 percent.

Meanwhile, the profit margin index remained solid, and unchanged, at 69 percent from the June 2007 report. The prospective shipments index, based on expectations of anticipated shipments in the fourth quarter of 2007 compared with the same quarter last year, also held steady at 77 percent from the previous survey.

Most of the other indexes showed modest decreases.

The annual orders index, based on a comparison of expected orders for all of 2008 with orders in 2007, slipped from 80 percent to 78 compared with a year ago. The exports orders index, which measures how third quarter 2007 exports are expected to compare with those of third quarter 2006, decreased from an all-time high of 79 percent in June 2007 to 75 percent in the September 2007 survey.

Another slight decline came in the backlogs index, which compared the third quarter 2007 backlog of orders with the backlog of orders one year earlier. The September 2007 index of 66 percent represents some retrenchment from 71 percent in the June 2007 survey. An accumulation of backlogs usually occurs when new orders exceed shipments.

Showing a more pronounced decrease, and the only double-digit dip in the current report, was the investment index, which queried executives on their initial expectations regarding capital investment in 2008 compared to 2007. The index was 62 percent, down from a robust 72 percent a year ago.

The inventory index declined to 63 percent in September 2007 from 70 percent in June 2007, continuing the easing in the run-up in inventories. The quarterly orders index, which compared new orders for the third quarter of 2007 with the same quarter one year ago, fell from 75 percent to 73 percent. The decline in the inventory index is a positive sign in that a reduced buildup of inventories will eventually necessitate increased production.

"Most of the manufacturing sector has weathered a period that saw activity slow starting in the latter part of 2006," said Donald A. Norman, Ph.D., Manufacturers Alliance/MAPI Economist and survey coordinator. "The stability of the composite index and the fact that all indexes, including those that slipped a bit between June and September, remain at relatively high levels point to continued growth for most industries."

Senior financial executives also responded to questions in the survey on the impact of financial turmoil; 96 percent of the respondents reported that recent financial turmoil had no significant impact on investment. Interestingly, a majority, 58.9 percent, thought that the federal funds rate should have been lowered by 25 basis points, 19.6 percent thought it should have remained at the pre-September 18 rate of 5.25 percent, and 16.1 percent thought that the Fed rate should have been lowered by 50 basis points.

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